VotorantimAsset

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Monthly Economic Outlook

Waning confidence suggests more moderate economic growth

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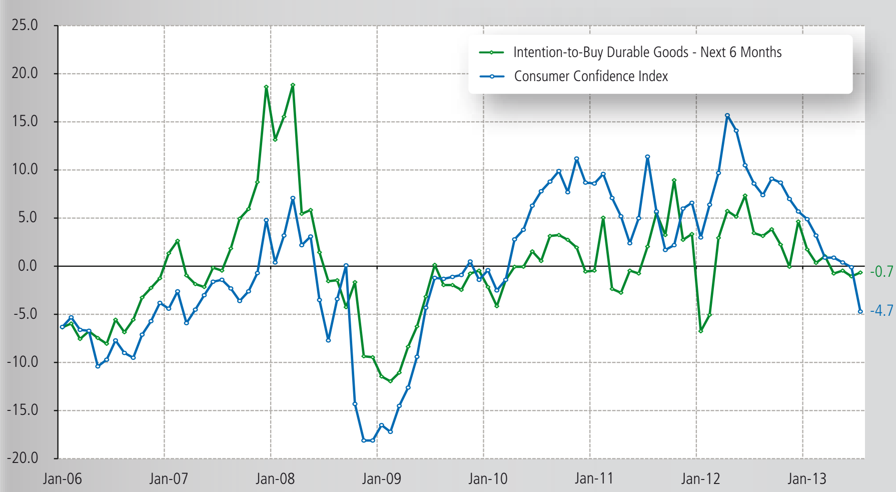
After registering disappointing GDP growth in 2011 (2.7%) and 2012 (0.9%) it was expected at the beginning of this year that 2013 would be marked by a rapid recovery. During the most optimistic moments, prevailing market consensus pointed to GDP growth of 3.3% for the year. However, with the decline in confidence that has affected the economy in recent months, this projection has been significantly revised downward to 2.3%. This deterioration of confidence is the result of a series of factors, such as: inflation for the last twelve months that breached the target ceiling; the current devaluation of the real against the dollar; fiscal policy which has been highly criticized; the slow pace of economic growth; and growing uncertainty about the political landscape. The first graph tracks the decline of confidence from the perspective of the consumer. In July the FGV Consumer Confidence Index (ICC) fell to its lowest level since 2009, which is when the Brazilian economy initiated its recovery in the aftermath of the international economic crisis of 2008.

One noteworthy aspect regarding this recent decline in consumer confidence is that while it did drop significantly in July, one of the components shown in the graph remained practically stable. As we can see the "Intention-to-Buy Durable Goods" was even slightly higher in July than it was in June, coming in very close to the average level for that particular component. In addition the second graph illustrates that there was also no significant drop in automobile sales. The cumulative decline in June and July of this year was only 2.2%, which is quite modest when compared to the previous episode of collapsing consumer confidence that occured after the fall of Lehman Brothers in September of 2008, when car sales plummeted no less than 40% within a three-month period.

The difference in the performance of retail sales, and the intention of consumers to purchase durable goods in the coming months, exemplifies this moment that the Brazilian economy is passing through. In addition to the economic problems cited above as factors that help explain the recent decline in consumer confidence, there is also the political environment, which in the month of June was clearly surprised by the magnitude of the popular protest movement that swept across the country. The voting intention polls released after these demonstrations showed sharp declines in the approval ratings for both the state and federal

FGV: Consumer Confidence Index
Seasonally adjusted series - deviation from the average since 2006



Source: FGV | Preparation: VAM

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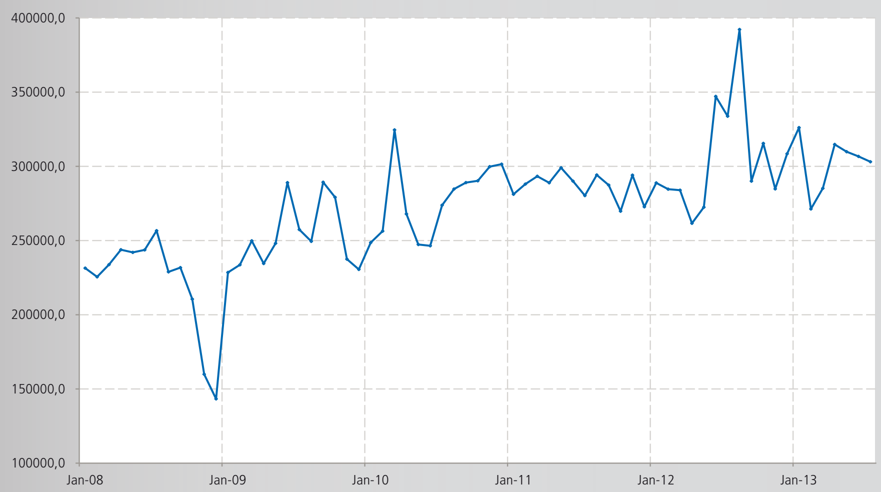
governments. In like manner, the components of the consumer confidence index that measure the assessment of the nation's "current economic climate" and its "future economic climate" recorded their biggest declines since 2008. However, it is interesting to note that when this same ICC poll asked consumers to evaluate their "household financial situation", respondents still gave assessments of well-being that were above the historical average (since 2006). This assessment of household financial well-being probably stems from the fact that the labor market, unlike in the crisis of 2008, has not been hit very hard, and form the fact that there has also been no collapse in consumer credit or in global economic growth.

The differences outlined above, between the current decline of confidence in the Brazilian economy and the decline of confidence that occurred in 2008, indicate that the present drop in aggregate demand will be much less impactful than that which took place in 2008.

In the last minutes of the Monetary Policy Committee meeting, the Central Bank indicated that it was concerned about monitoring the recessive impact of waning confidence. While on the other hand, it also showed concerned about the inflationary risks arising from the recent devaluation of the real. In a context where economic growth is moving at a very slow pace, while inflation continues to remain stubbornly high, it seems highly unlikely that during the upcoming meetings of the Monetary Policy Committee, that the Central Bank would decide not to move the Selic rate upward to at least 9.25% in order to deal with inflation. It appears that the government and the monetary authority now have a clear understanding that bringing inflation back down to levels that are closer to the center of the target is one of the conditions that is necessary to pave the way for stronger confidence that will reinstate the possibility of a higher rate of economic growth

Fenabrave: Sales of Passenger Cars and Light Commercial Vehicles
Seasonally adjusted series



Source: Fenabrave | Preparation: VAM